Journal of
Economic and Social Thought
www.kspjournals.org
Volume 4 March 2017 Issue 1

Tarika Akin & Abbas Mirakhor, *Efficiency with Rule-Compliance: A Contribution to the Theory of the Firm in Islamic Economics*, Journal of Economics and Political Economy, 3(3), 560-574.

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Critique of Article

The effort of the authors is laudable. The literature coverage andthe review is comprehensive and well documented. The paper is a valuable contribution to Islamic economics in that it supports the affirmative position on profit maximization within the juristic confines as expoundedin some earlier writings. Beyond that it suffers from some serious blemishes.

The authors start with the following premise. The firm "raises capital through ex-ante (before production and sale of output) profit-losssharing arrangement. The funds thus raised and the amount of capital purchased with these funds give the*price per unit of capital (r).* Being rule compliant regarding distribution, the firm knows that all profits must be distributed among factor inputs, including entrepreneurial effort subsumed under one or the other inputs". (emphasis added).

To begin with, the assumption that entrepreneurial effort is subsumed under one or the other inputs – labor or capital – is confusing; The authors must indicate which of the two factors includes the entrepreneurial effort for their model. For, if labor contains it, one would demand the division of wL into wage and entrepreneurial reward. On the other hand, its inclusion in capital would require a bifurcation of rK into money capital cost and the return to the entrepreneur. It would be an uphill task to handle either divisions in a worthwhile modeling.

That apart, one may like to seek some clarifications on the inequalities the learned authors have erected on theirpremise stated above. In their formulations down the line, in rK, K must be the physicalunits of capital, not its money value; for, (average price r = funds /Assets purchased) The error also vitiates another claim of the authors. In their opening statement they say: "(a) Profits are exhausted by payments to inputs as agreed in the pre-productionphase, i.e. π =wL+ rK, The two component cannot be independent of the pre-agreed sharing ratio. The model is oblivious to this obvious imperative.Furthermore,r in the equation no longer remains the assets price; it becomes the rate of return on funds invested, and net revenueπ becomes a linear combination of payments to labor and capital In fact, rK is, by the authors' own rendition, the money volume of funds. committed to business. If one wants to bring in, as one must, the return on rK into the picture, one more symbol for it, say μ, must enter the picture to rewrite the equation as π =wL + μrK. The use of μ could have plainly been avoided by not bringing the

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frivolous asset price into the picture; r could have straight away been defined as the rate of return on money capital K.Two observations follow from this error.

1. The inconsistent symbol definitionsvitiate the model building down the line as shown above, but the trouble does not end with mathematical faux pas. The model, as presented, does not fit into the logic of micro frameworkof individual firms. The authors raise three scenarios. Case (a),wherein π is the profit of the firm, is simple and raises no issues. But case (b) that brings in losses, creates serious difficulties. In $\pi < wL + rK$ for the firm, therK part could be negative such that wL may even be more than wiped out – workers by implication share losses. Minimum wage provision guards against that possibility and cannot be dropped, as the authors naively suggest, from any sharing model of the sorts.

2. However, the authors explicitly focus on the third case (c) i.e. $\pi > wL + rK$. But this looks anomalous;for, it assumes such predetermined value for π - the profit volume - as would make the inequality hold good. Now, in a two-factor sharing model, one must explain who would receive the excess profit π the inequality assumes, additional to what labor and capitaltogether would get? Why would not r appropriately go up to convert the inequality into an equation?

Thus, in our humble opinion, the model the authors' present is flawed on several counts and needs extensiverevision to be fruitful. As a minor point, the documents cited in the paper and those listed in the references lack a two-way matching in a notable way.

References

Akın, T., & Mirakhor, A. (2016). Efficiency with Rule-Compliance: A Contribution to the Theory of the Firm in Islamic Economics, *Journal of Economics and Political Economy*, 3(3), 560-574.